

MORRICE AREA SCHOOLS

MORRICE, MICHIGAN

AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2005

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*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

August 25, 2005

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education of  
Morrice Area Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morrice Area Schools, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Morrice Area Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Morrice Area Schools as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2005 on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages II - IX and 18, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morrice Area Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lewis & Knopf P.C.*  
LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MORRICE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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Morrice Area Schools, a K-12 school District located in Shiawassee County, Michigan, is in its second year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Morrice Area Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2005.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

**Fund Financial Statements:**

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

**District Wide Financial Statements:**

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

MORRICE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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**District Wide Financial Statements: (Continued)**

These two statements report the Morrice Area Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreased in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

**The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities**

The School District is the trustee, or fiduciary, for its student activity funds and its private purpose trust funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**SUMMARY OF NET ASSETS:**

The following summarizes the net assets at the fiscal years ended June 30, 2005 and 2004:

**NET ASSETS SUMMARY**

	<u>2005</u>	<u>2004</u>
<b><u>ASSETS</u></b>		
Current Assets	\$1,630,427	\$1,678,142
Non-Current Assets	<u>1,456,204</u>	<u>1,520,018</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$3,086,631</u></b>	<b><u>\$3,198,160</u></b>
<b><u>LIABILITIES</u></b>		
Current Liabilities	\$1,618,516	\$1,515,793
Long-Term Liabilities	<u>870,568</u>	<u>904,953</u>
Total Liabilities	\$2,489,084	\$2,420,746
<b><u>NET ASSETS</u></b>		
Invested in Capital Assets - Net of Related Debt	608,479	526,845
Restricted - Debt Service	38,584	52,475
Unrestricted	<u>(49,516)</u>	<u>198,094</u>
Total Net Assets	<u>\$597,547</u>	<u>\$777,414</u>
<b><u>TOTAL LIABILITIES AND NET ASSETS</u></b>	<b><u>\$3,086,631</u></b>	<b><u>\$3,198,160</u></b>

MORRICE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**RESULTS OF OPERATIONS:**

For the fiscal years ended June 30, 2005 and 2004, the District wide results of operations were:

	<u>2005</u>	<u>2004</u>
<b><u>REVENUES</u></b>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$160,278	\$127,408
Property Taxes Levied for Debt Service	151,420	172,292
State of Michigan Unrestricted Foundation Aid	4,438,647	4,259,520
Other General Revenues	<u>42,660</u>	<u>27,186</u>
Total General Revenues	\$4,793,005	\$4,586,406
<u>Operating Grants:</u>		
Federal	147,733	161,645
State of Michigan	202,629	428,068
Other Grants	<u>14,805</u>	<u>0</u>
Total Operating Grants	\$365,167	\$589,713
<u>Charges for Services:</u>		
Food Service	136,679	127,976
Athletics	20,747	30,260
Other Charges for Services	<u>214,719</u>	<u>127,386</u>
Total Charges for Services	\$372,145	\$285,622
Total Revenues	\$5,530,317	\$5,461,741
<b><u>EXPENSES</u></b>		
Instruction & Instructional Support	3,301,297	3,357,483
Support Services	1,844,460	1,854,413
Food Service	217,008	206,247
Athletics	113,362	45,110
Interest on Long-Term Debt	45,918	60,223
Depreciation	<u>68,139</u>	<u>112,631</u>
Total Expenses	\$5,590,184	\$5,636,107
<b><u>(DECREASE) IN NET ASSETS</u></b>	(\$59,867)	(\$174,366)
<b><u>BEGINNING NET ASSETS - AS RESTATED</u></b>	<u>657,414</u>	<u>951,780</u>
<b><u>ENDING NET ASSETS</u></b>	<u><u>\$597,547</u></u>	<u><u>\$777,414</u></u>

MORRICE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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**GOVERNMENT- WIDE FINANCIAL ANALYSIS**

Analysis of Financial Position:

During the year ended June 30, 2005, the District's Total Net Assets decreased by \$59,867 to a total of \$597,547. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$81,634 as the payments of long-term debt and purchases new assets exceeded depreciation. The District's Unrestricted Net Assets decreased by \$247,610 during the year and the restricted portion of the net assets decreased by \$13,891. The restricted Net Assets consist of the Investment in Capital Assets-net of related debt and the restricted debt retirement funds that may only be used to pay bonded debt. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall expenditures exceeded its revenues for the year by \$59,867. The total revenues increased by \$68,576 or 1% over last years amounts. The major changes were an increase in property taxes and transfers from other districts. Expenditures decreased by \$45,923. The major changes were decreases in depreciation.

**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS**

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund decreased by \$134,799 during the year with the decrease coming primarily in cash. Revenues for the year increased by \$97,495, primarily from an increase in property taxes and transfers from other districts. Expenditures and other financing uses increased by \$44,044, primarily from increased cost of salaries and fringe benefits. The major source of general fund revenues is state aid and taxes. An analysis of revenues and expenditures are as follows:

1. Primary Revenue Factors: Per Student Foundation Allowance

The Michigan legislature announces a dollar foundation allowance for each public school student in the State. Local non-homestead valuations are multiplied by 18 mils, regardless of the millage actually levied locally. That potential tax receipt is divided by the blended count enrollment to determine tax per student. Tax per student is subtracted from the per student foundation grant to determine what the State will pay in general aid per student. That per student foundation grant is then paid for each student enrolled, in 11 equal installments, as general, unrestricted state aid.

Morrice Area Schools' foundation allowance was established at \$6,700 per student for the 2002-2003, 2003-04 and 2004-05 school years. However, due to inadequate State revenues, the actual per student allocations were reduced from the promised \$6,700 to \$6,639.34 in 2002-03 and to \$6,626 in 2003-04. In 2004-05 the grant was fully funded. The realized increase in foundation grant in 2004-05 was 1.12% percent relative to the 2003-04 allocation and less than one percent relative to two years ago: The District's per student funding has remained virtually unchanged for three years.

An increased grant, \$6,875, has been announced for 2005-06. Reductions remain a possibility for 2005-2006 if State revenues fall short of the projections on which the State Aid Act was based.

MORRICE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)**

Analysis of Financial Position (Continued)

General Fund (Continued)

2. Primary Revenue Factors: Student Enrollment

Approximately three percent of the Morrice Area Schools' revenue is derived from local, non-homestead tax levies. Approximately 90% of the District's revenue is derived from state aid and its per student foundation allowance. In addition to defining the scope of service the district will provide, enrollments are also important in determining the major portion of annual funding. State aid is determined by multiplying a blended count student enrollment by a per student foundation grant. Subsequently, the blended count is a key factor in computing revenue.

For the last 15 years, the District's student enrollment has fluctuated between 660 and 730 students. In 2004-05 the blended count was determined by adding 75% of school districts' fall enrollment with 25% of the student population enrolled the previous February.

1999-2000	K-12 blended count:	702.01
2000-2001	K-12 blended count:	722.90
2001-2002	K-12 blended count:	702.36
2002-2003	K-12 blended count:	725.77
2003-2004	K-12 blended count:	706.32
2004-2005	K-12 blended count:	699.68

Morrice enrollments declined in February 2005 relative to both the fall 2004 enrollments and the previous February enrollments. When 25% of that February 2005 enrollment is combined with 75% of the fall 2005 preliminary student census, the Morrice Area Schools anticipate a decline in its 2005-06 blended count enrollments.

3. Primary Revenue Factors: Property Taxes Levied for General Operations

With authorization from their electors, Public School Districts in Michigan may levy 18 mils against non-homestead properties to fund general fund expenses. Under Michigan law, the annual increases in those properties' taxable values are capped at the lesser of the rate of the prior year's Consumer Price Index increase or 5%, whichever is less. Subsequently, it is not unusual for districts to levy less than 18 mils because of mandatory rollbacks in allowable increases.

In June 2003, voters in the Morrice Area Schools approved the maximum allowable taxing authority, 18 mils. In the subsequent two years, rollbacks have reduced the allowable levy by almost a mil. Loss of this authority has reduced the district's tax collection ability for 2005 by approximately \$10,000.

2003:	18.0000 mils
2004:	17.6873 mils
2005:	17.0399 mils

The District's non-homestead property tax revenue for the 2004-2005 fiscal year was \$160,278. An increase of \$32,870 from the prior year.



MORRICE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)**

Analysis of Financial Position (Continued)

General Fund (Continued)

4. Primary Expenditure Factors: Michigan Public School Employees Retirement System

The Michigan Public School Employees Retirement System provides pensions and health care benefits to retired public school employees. The system is funded by a combination of contributions made by all Michigan public school employers and by active public school employees. Both employer school districts and employees are required to contribute a percentage of paid compensation to the system. The employee rate has varied between 3.8% and 4.1% since the inception of the contributory feature in 1987. The rates that the employer school districts are required to pay has increased from the 5% paid at the inception of Proposal A in 1995 to 14.87% required in 2004-05.

FY 2000:	11.66%
FY 2001:	12.16%
FY 2002:	12.17%
FY 2003:	12.99%
FY 2004:	12.99%
FY 2005:	14.87%
FY 2006:	16.34%

In the just-concluded fiscal year, the Morrice Area Schools (and all other public school employers in Michigan) were required to send \$14.87 to the Michigan Public School Employees Retirement System for every \$100 paid to the employee. As approximately half of the District's general fund budget is designated for employee compensation, an increase of 14.5% (12.99% to 14.87% = 14.47% increase) represents a significant increase in total cost.

5. Primary Expenditure Factors: Employer Paid Health Insurance

As is common with many employers, the Morrice Area Schools provide health insurance to many employees. These benefit packages are parts of collectively bargained labor agreements. The costs of negotiated benefits represent approximately 12% of the District's general fund budget. Health insurance premiums have increased by between 15% and 18% for each of the last three years, representing 1.5% to 1.75% increase in each year's total spending.

In the last three years, minor enrollment decline has generally offset modest foundation grant growth. The combination of these two revenue factors has resulted in stagnant revenues. At the same time, increases in the payroll tax burden imposed by the Michigan Public School Employees Retirement System and the increased rates required to maintain insurance coverage have caused expenditures to grow significantly. Stagnant revenues could not absorb growth in expenses.

The Morrice Schools spent more than was receipted in 2003-04 and again in 2004-05. Virtually all of the district's financial reserves have been consumed.

MORRICE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)**

Analysis of Financial Position (Continued)

General Fund (Continued)

6. Other Changes that Have Affected the Morrice Area Schools' Fiscal Delivery

Beginning with the 1997-98 school year, the Morrice Area Schools and the Perry Public Schools formed an adult education consortium. Morrice acted as fiscal agent. During the 2003-04 school year, the two school districts agreed to move both the physical location of the program and the fiscal agency to Perry.

That program is funded by a combination of state aid paid as a function of adult student enrollments and various grants. Revenues were clearly identified as program revenue. Likewise, expenses were carefully recorded. As less was spent than was receipted during the years of Morrice's fiscal agency, a surplus accumulated and was appropriately transferred to Perry with the program's fiscal agency. A total of \$89,008 was transferred from Morrice to Perry in two installments. One of the payments was made in July 2004; the second was made in December 2004.

During the 2004-2005 school year, significant changes were made in the personnel and function assignment in the Morrice central office. The superintendent of schools retired; the schools' business manager resigned; an interim superintendent was assigned for the remainder of the school year and a new superintendent began work in mid-July 2005. Business services were (and continue to be) contracted from the Shiawassee Regional Service District.

**GENERAL FUND BUDGETARY HIGHLIGHTS:**

**GENERAL FUND BUDGET VS. ACTUAL**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original &amp; Final Budget %</u>	<u>Variance Actual &amp; Final Budget %</u>
Revenue	\$5,203,126	\$5,023,325	\$5,133,247	3.46%	2.19%
Expenditures	5,142,158	5,445,866	5,268,046	5.91%	3.27%
<u><b>TOTAL</b></u>	<u>\$60,968</u>	<u>(\$422,541)</u>	<u>(\$134,799)</u>		

**ANALYSIS OF BUDGETS:**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Morrice Area Schools amends its budget during the school year. The June, 2005 budget amendment was the final budget for the fiscal year. The District had changes in business managers in the past few years and the variances between original and final budgets and actual results have resulted due to transitions of personnel.

MORRICE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**CAPITAL ASSET AND DEBT ADMINISTRATION**

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-1-04	Increases 6-30-05	Principal Payments 6-30-05	Principal Balance 6-30-05
General Obligation & Durant Bonds	\$942,278	\$0	\$120,000	\$822,278
Capital Lease Payable	50,895	0	25,448	25,447
Retirement Incentive	0	120,000	30,000	90,000
Compensated Absences	31,780	23,130	0	54,910
<u>Total Long-Term Debt</u>	<u>\$1,024,953</u>	<u>\$143,130</u>	<u>\$175,448</u>	<u>\$992,635</u>

In June 2004, the District agreed to pay six of its senior teachers and incentive to retire. Each of these teachers was paid \$5,000 at the time each formally retired in June 2004. The agreement also required the district to pay make subsequent payments of \$5,000 to each of these now-retired teachers for four additional years, a total of \$25,000 for each of the six retirees. The second installment in this incentive, a total of \$30,000, is recorded as an expense of operations for 2004-2005. Future payments are obligations payable by the district in 2005-06, 2006-07 and 2007-08.

B. Capital Assets

The district's net investment in capital assets decreased by \$63,814 during the fiscal year. This can be summarized as follows:

	Balance 7-1-04	Additions	Deudctions	Balance 6-30-05
Capital Assets	\$5,179,448	\$8,290	\$0	\$5,187,738
Less: Accumulated Depreciation	(3,659,430)	(72,104)	0	(3,731,534)
<u>Net Investment Capital Outlay</u>	<u>\$1,520,018</u>	<u>(\$63,814)</u>	<u>\$0</u>	<u>\$1,456,204</u>

Significant additions was the purchase of a voice mail system and software.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Additional detail is available on the District's web site ([www.morrice.k12.mi.us.com](http://www.morrice.k12.mi.us.com)). Questions concerning this report or requests for additional information should be addressed to Bruce Burger at [burger@morrice.k12.mi.us.org](mailto:burger@morrice.k12.mi.us.org).

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
STATEMENTS OF NET ASSETS  
JUNE 30, 2005 AND 2004

	Governmental Activities	
	2005	2004
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$699,058	\$734,598
Accounts Receivable	34,613	0
Due from Other Governmental Units	893,840	935,442
Inventory	2,916	8,102
Total Current Assets	<u>\$1,630,427</u>	<u>\$1,678,142</u>
<u>NON-CURRENT ASSETS</u>		
Capital Assets	5,187,738	5,179,448
Less: Accumulated Depreciation	<u>(3,731,534)</u>	<u>(3,659,430)</u>
Total Noncurrent Assets	<u>\$1,456,204</u>	<u>\$1,520,018</u>
<u>TOTAL ASSETS</u>	<u>\$3,086,631</u>	<u>\$3,198,160</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	32,487	115,653
State Aid Anticipation Note Payable	1,013,047	900,000
Accrued Expenses	87,269	7,703
Salaries Payable	329,239	372,437
Deferred Revenue	34,407	0
Current Portion of Long-Term Obligations	122,067	120,000
Total Current Liabilities	<u>\$1,618,516</u>	<u>\$1,515,793</u>
<u>NON-CURRENT LIABILITIES</u>		
Noncurrent Portion of Long-Term Obligations	<u>870,568</u>	<u>904,953</u>
<u>TOTAL LIABILITIES</u>	<u>\$2,489,084</u>	<u>\$2,420,746</u>
<u>NET ASSETS</u>		
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	608,479	526,845
Restricted for:		
Debt Service	38,584	52,475
Unrestricted	<u>(49,516)</u>	<u>198,094</u>
<u>TOTAL NET ASSETS</u>	<u>\$597,547</u>	<u>\$777,414</u>

See accompanying notes to the basic financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
STATEMENTS OF ACTIVITIES  
JUNE 30, 2005 AND 2004

FUNCTIONS/PROGRAMS	2005			2004
	Expenses	Program Revenues		Net (Expense)
		Charges For	Operating	Revenue &
		Services	Grants and	Change in
			Contributions	Net Assets
Governmental Activities:				Net (Expense)
Instruction	\$3,301,297	\$0	\$268,215	Revenue &
Support Services	1,844,460	214,719	19,075	Change in
Food Service	217,008	136,679	77,877	Net Assets
Athletics	113,362	20,747	0	
Interest - Long-Term Obligations	45,918	0	0	
Depreciation - Unallocated	68,139	0	0	
<u>TOTALS</u>	<u>\$5,590,184</u>	<u>\$372,145</u>	<u>\$365,167</u>	<u>(\$4,852,872)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				311,698
State Aid				4,438,647
Investment Earnings				11,424
Miscellaneous				31,236
Total General Revenues and Transfers				<u>\$4,793,005</u>
Change in Net Assets				<u>(\$59,867)</u>
Net Assets - Beginning - As Restated				<u>657,414</u>
<u>Net Assets - Ending</u>				<u>\$597,547</u>
				<u>951,780</u>
				<u>\$777,414</u>

See accompanying notes to the basic financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$652,082	\$46,976	\$699,058
Accounts Receivable	34,613	0	34,613
Due from Other Funds	0	38,542	38,542
Due from Other Governmental Units	893,840	0	893,840
Inventory	0	2,916	2,916
<u>TOTAL ASSETS</u>	<u>\$1,580,535</u>	<u>\$88,434</u>	<u>\$1,668,969</u>
<u>LIABILITIES</u>			
Accounts Payable	\$29,353	\$3,134	\$32,487
State Aid Anticipation Note Payable	1,013,047	0	1,013,047
Due to Other Funds	38,542	0	38,542
Accrued Expenses	80,568	0	80,568
Salaries Payable	329,239	0	329,239
Deferred Revenue	34,407	0	34,407
Total Liabilities	\$1,525,156	\$3,134	\$1,528,290
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	0	2,916	2,916
Debt Retirement	0	38,584	38,584
Unreserved:			
Undesignated, Reported In:			
General Fund	55,379	0	55,379
School Service Funds	0	43,800	43,800
Total Fund Balances	<u>\$55,379</u>	<u>\$85,300</u>	<u>\$140,679</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$1,580,535</u>	<u>\$88,434</u>	<u>\$1,668,969</u>

See accompanying notes to the basic financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005

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Total Governmental Fund Balances:		\$140,679
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$5,187,738 and the accumulated depreciation is \$3,731,534		1,456,204
Accrued Interest on Long-Term Debt		(6,701)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	\$822,278	
Capital Lease Payable	25,447	
Retirement Incentive	90,000	
Compensated Absences	54,910	
Total Long-Term Liabilities		<u>(992,635)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>		<u>\$597,547</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>			
Local Sources	\$219,605	\$319,193	\$538,798
State Sources	4,628,097	13,179	4,641,276
Federal Sources	83,035	64,698	147,733
Total Revenues	<u>\$4,930,737</u>	<u>\$397,070</u>	<u>\$5,327,807</u>
<u>EXPENDITURES</u>			
Current:			
Instruction	3,331,297	0	3,331,297
Student Services	122,744	0	122,744
Instructional Support	223,347	0	223,347
General Administration	399,097	0	399,097
School Administration	338,571	0	338,571
Business Administration	28,329	0	28,329
Operation & Maintenance of Plant	524,429	0	524,429
Transportation	166,607	0	166,607
Other Support Services	49,869	0	49,869
Special Revenue	0	328,480	328,480
Debt Service	0	166,920	166,920
Total Expenditures	<u>\$5,184,290</u>	<u>\$495,400</u>	<u>\$5,679,690</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(\$253,553)	(\$98,330)	(\$351,883)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers from (to) Other Funds	(83,756)	83,756	0
Other Transfers	202,510	0	202,510
Total Other Financing Sources (Uses)	<u>\$118,754</u>	<u>\$83,756</u>	<u>\$202,510</u>
Net Change in Fund Balance	(\$134,799)	(\$14,574)	(\$149,373)
<u>FUND BALANCE - BEGINNING</u>	<u>190,178</u>	<u>99,874</u>	<u>290,052</u>
<u>FUND BALANCE - ENDING</u>	<u>\$55,379</u>	<u>\$85,300</u>	<u>\$140,679</u>

See accompanying notes to the basic financial statements.



MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005

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Total net change in fund balances - governmental funds	(\$149,373)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(63,814)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	175,448
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Change in accrued interest on long-term liabilities	1,002
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(Increase) in accrued compensated absences	<u>(23,130)</u>
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<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>(\$59,867)</u></u>
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MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2005

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	<u>Trust &amp; Agency</u>	<u>Private Purpose Trusts</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$45,317	\$2,456	\$47,773
<u>LIABILITIES</u>			
Due to Student Groups	<u>45,317</u>	<u>0</u>	<u>45,317</u>
<u>NET ASSETS - HELD IN TRUST FOR OTHERS</u>	<u>\$0</u>	<u>\$2,456</u>	<u>\$2,456</u>

See accompanying notes to the basic financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Private Purpose Trusts</u>
<u>REVENUE</u>	
Interest	\$61
Donations	<u>900</u>
Total Revenue	\$961
<u>EXPENDITURES</u>	
Scholarships	<u>1,500</u>
<u>CHANGE IN NET ASSETS</u>	(\$539)
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>2,995</u>
<u>NET ASSETS - END OF YEAR</u>	<u><u>\$2,456</u></u>

See accompanying notes to the basic financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Morrice Area Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.



MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

O) RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to current year presentation.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2005, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2005, the District had no investments.

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2005, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$801,220 of the District's bank balance of \$940,504 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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4) DEPOSITS AND INVESTMENTS (Continued)

**Custodial credit risk – investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$47,773	\$ 746,831
Investments	<u>0</u>
<u>TOTAL</u>	<u>\$ 746,831</u>

The above amounts are reported in the financial statements as follows:

Cash – Agency Fund	\$ 45,317
Cash – Private Purpose Trusts	2,456
Cash – District Wide	699,058
Investments – District Wide	<u>0</u>
<u>TOTAL</u>	<u>\$ 746,831</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2005, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 877,591
Federal Grants	<u>16,249</u>
<u>TOTAL</u>	<u>\$ 893,840</u>

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2005, the District had no estimated claims payable in conjunction with the program.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

8) SHORT-TERM DEBT

The District borrowed \$1,000,000 at 1.57% interest per annum on August 20, 2004, from JPMorgan Chase on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The note was repaid on August 19, 2005.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$3,740,414	\$0	\$0	\$3,740,414
Land Improvements	1,074,557	0	0	1,074,557
Equipment and Furniture	31,607	8,290	0	39,897
Vehicles	332,870	0	0	332,870
Totals at Historical Cost	\$5,179,448	\$8,290	\$0	\$5,187,738
Less: Accumulated Depreciation				
Buildings and Improvements	(2,261,648)	(68,018)	0	(2,329,666)
Land Improvements	(1,037,834)	(2,825)	0	(1,040,659)
Equipment and Furniture	(27,078)	(1,261)	0	(28,339)
Vehicles	(332,870)	0	0	(332,870)
Total Accumulated Depreciation	(\$3,659,430)	(\$72,104)	\$0	(\$3,731,534)
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$1,520,018</u>	<u>(\$63,814)</u>	<u>\$0</u>	<u>\$1,456,204</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Support Services	\$ 2,075
Food Service	343
Athletics	1,547
Unallocated	68,139
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 72,104</u>

10) GENERAL LONG-TERM DEBT

A) 1992 Serial Bonds

Morrice Area Schools issued 1992 Serial Bonds dated August 1, 1992 in the aggregate amount of \$350,000.00. These bonds require annual payments of principal and interest. The interest rates range from 6.0% to 6.3% per annum. The principal balance at June 30, 2005 was \$115,000.

B) 1997 Serial Bonds

Morrice Area Schools issued 1997 Serial Bonds dated November 1, 1997 in the aggregate amount of \$1,125,000.00. These bonds require annual payments of principal and interest. The interest rates range from 4.20% to 5.10% per annum. The principal balance at June 30, 2005 was \$680,000.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

10) GENERAL LONG-TERM DEBT (Continued)

C) Durant Resolution Package Bonds

Morrice Area Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$56,485.60 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2005 was \$27,278. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

D) Capital Leases Payable

Morrice Area Schools is indebted to Shiawassee Regional Education Service District for the purchase of 98 computers. The leases originated August 7, 2003 in the total amount of \$76,342, bearing interest at approximately 2% per annum. The leases calls for 3 annual payments of \$25,447 plus interest.

E) Retirement Incentive

In June 2004, the District agreed to pay six of its senior teachers and incentive to retire. Each of these teachers was paid \$5,000 at the time each formally retired in June 2004. The agreement also required the district to pay make subsequent payments of \$5,000 to each of these now-retired teachers for four additional years, a total of \$25,000 for each of the six retirees.

F) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2005 are as follows:

	Bonds Payable	Capital Lease	Retirement Incentive	Interest	Total
June 30, 2006	\$122,067	\$25,447	\$30,000	\$41,613	\$219,127
June 30, 2007	127,165	0	30,000	34,943	192,108
June 30, 2008	127,268	0	30,000	28,368	185,636
June 30, 2009	87,376	0	0	21,744	109,120
June 30, 2010	87,489	0	0	17,551	105,040
June 30, 2011-2013	270,913	0	0	30,075	300,988
<u>TOTAL</u>	<u>\$822,278</u>	<u>\$25,447</u>	<u>\$90,000</u>	<u>\$174,294</u>	<u>\$1,112,019</u>

The payment dates of sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$46,220.

G) Changes in General Long-Term Debt

	Balance 7-1-04	Additions	Deductions	Balance 6-30-05	Amount Due In One Year
<u>Governmental Activities:</u>					
Durant Bonds	\$27,278	\$0	\$0	\$27,278	\$2,067
General Obligation Bonds	915,000	0	120,000	795,000	120,000
Capital Lease Payable	50,895	0	25,448	25,447	25,447
Retirement Incentive	0	120,000	30,000	90,000	30,000
Compensated Absences	31,780	23,130	0	54,910	0
<u>Total Governmental Activities</u>	<u>\$1,024,953</u>	<u>\$143,130</u>	<u>\$175,448</u>	<u>\$992,635</u>	<u>\$177,514</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

11) FUND EQUITY RESTATEMENT

The beginning net assets as of July 1, 2004 were restated by \$120,000 due to retirement incentive not being recorded in the 2003-2004 year on the statement of net assets.

12) INTERFUND ACTIVITY

Interfund balances at June 30, 2005 consisted of the following:

DUE TO	DUE FROM	
		SPECIAL
		REVENUE
		<u>FUND</u>
General Fund		<u>\$38,542</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

13) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2005, consisted of the following:

TRANSFERS TO	TRANSFERS FROM	
		GENERAL
		<u>FUND</u>
Athletics Fund		<u>\$83,756</u>

These transfers were made to subsidize the cost of services for athletics.

14) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2004 through September 30, 2004 and 14.87 percent for the period October 1, 2004 through June 30, 2005 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS pension plan for the years ended June 30, 2005, 2004 and 2003 were \$445,995, \$405,397 and \$408,858, respectively.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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14) DEFINED BENEFIT PENSION PLAN (Continued)

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

15) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

16) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantor agencies.

The District is a defendant in a lawsuit in the United States District Court for the eastern district of Michigan. The plaintiff is asserting that she is entitled to damages in excess of \$1,000,000.

17) SUBSEQUENT EVENT

The District has approved borrowing \$1,050,000 at a interest rate of 2.92% from JPMorgan Chase to meet cash flow needs for the 2005-2006 fiscal year.

REQUIRED  
SUPPLEMENTARY  
INFORMATION

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Local Sources	\$227,214	\$178,720	\$219,605	\$40,885
State Sources	4,730,073	4,576,624	4,628,097	51,473
Federal Sources	136,839	84,250	83,035	(1,215)
Total Revenues	<u>\$5,094,126</u>	<u>\$4,839,594</u>	<u>\$4,930,737</u>	<u>\$91,143</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	3,304,077	3,430,898	3,331,297	99,601
Student Services	105,685	127,954	122,744	5,210
Instructional Support	189,503	234,466	223,347	11,119
General Administration	416,002	393,890	399,097	(5,207)
School Administration	251,794	339,409	338,571	838
Business Administration	40,388	33,778	28,329	5,449
Operation & Maintenance of Plant	484,586	561,690	524,429	37,261
Transportation	171,070	176,742	166,607	10,135
Other Support Services	46,038	62,775	49,869	12,906
Total Expenditures	<u>\$5,009,143</u>	<u>\$5,361,602</u>	<u>\$5,184,290</u>	<u>\$177,312</u>
Excess of Revenues Over Expenditures	<u>\$84,983</u>	<u>(\$522,008)</u>	<u>(\$253,553)</u>	<u>\$268,455</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(24,015)</u>	<u>99,467</u>	<u>118,754</u>	<u>19,287</u>
Net Change in Fund Balance	<u>\$60,968</u>	<u>(\$422,541)</u>	<u>(\$134,799)</u>	<u>\$287,742</u>
<u>FUND BALANCE - BEGINNING</u>			<u>190,178</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$55,379</u>	



OTHER SUPPLEMENTAL  
INFORMATION

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2005

	Special Revenue Fund	Debt Service Fund	Total Other Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$8,392	\$38,584	\$46,976
Due from Other Funds	38,542	0	38,542
Inventory	2,916	0	2,916
<u>TOTAL ASSETS</u>	<u>\$49,850</u>	<u>\$38,584</u>	<u>\$88,434</u>
<u>LIABILITIES</u>			
Accounts Payable	\$3,134	\$0	\$3,134
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	2,916	0	2,916
Debt Retirement	0	38,584	38,584
Unreserved:			
Undesignated, Reported In:			
School Service Fund	43,800	0	43,800
Total Fund Balances	<u>\$46,716</u>	<u>\$38,584</u>	<u>\$85,300</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$49,850</u>	<u>\$38,584</u>	<u>\$88,434</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	Special Revenue Fund	Debt Service Fund	Total Other Governmental Funds
<u>REVENUES</u>			
Local Sources	\$166,164	\$153,029	\$319,193
State Sources	13,179	0	13,179
Federal Sources	64,698	0	64,698
Total Revenues	<u>\$244,041</u>	<u>\$153,029</u>	<u>\$397,070</u>
<u>OTHER FINANCING SOURCES</u>	<u>83,756</u>	<u>0</u>	<u>83,756</u>
Total Revenues and Other Financing Sources	<u>\$327,797</u>	<u>\$153,029</u>	<u>\$480,826</u>
<u>EXPENDITURES</u>			
Special Revenue	328,480	0	328,480
Debt Service	0	166,920	166,920
Total Expenditures	<u>\$328,480</u>	<u>\$166,920</u>	<u>\$495,400</u>
Net Change in Fund Balance	(\$683)	(\$13,891)	(\$14,574)
<u>NET ASSETS - BEGINNING</u>	<u>47,399</u>	<u>52,475</u>	<u>99,874</u>
<u>NET ASSETS - ENDING</u>	<u>\$46,716</u>	<u>\$38,584</u>	<u>\$85,300</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
SPECIAL REVENUE FUND  
COMBINING BALANCE SHEET  
AS OF JUNE 30, 2005

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$0	\$8,392	\$8,392
Due from Other Funds	38,542	0	38,542
Inventory	2,916	0	2,916
<u>TOTAL ASSETS</u>	<u>\$41,458</u>	<u>\$8,392</u>	<u>\$49,850</u>
<u>LIABILITIES</u>			
Accounts Payable	\$2,994	\$140	\$3,134
<u>FUND EQUITY</u>			
Reserved for Inventory	2,916	0	2,916
Unreserved and Undesignated	35,548	8,252	43,800
Total Fund Equity	\$38,464	\$8,252	\$46,716
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$41,458</u>	<u>\$8,392</u>	<u>\$49,850</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
SPECIAL REVENUE FUND  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Cafeteria Sales	\$136,679	\$0	\$136,679
Athletic Activities	0	20,747	20,747
Earnings on Investments and Deposits	615	281	896
Other Local Sources	491	7,351	7,842
Total Local Sources	<u>\$137,785</u>	<u>\$28,379</u>	<u>\$166,164</u>
<u>State Sources</u>			
State Reimbursements	13,179	0	13,179
<u>Federal Sources</u>			
Federal Reimbursements	55,834	0	55,834
Commodities	8,864	0	8,864
Total Federal Sources	<u>\$64,698</u>	<u>\$0</u>	<u>\$64,698</u>
Total Revenues	<u>\$215,662</u>	<u>\$28,379</u>	<u>\$244,041</u>
<u>OTHER FINANCING SOURCES</u>			
Transfers from Other Funds	0	83,756	83,756
Total Revenues and Other Financing Sources	<u>\$215,662</u>	<u>\$112,135</u>	<u>\$327,797</u>
<u>EXPENDITURES</u>			
Salaries - Professional	0	15,674	15,674
Salaries - Non-Professional	46,174	63,248	109,422
Insurances	19,029	0	19,029
Fica, Retirement, Etc.	12,575	0	12,575
Purchased Services	116,361	16,102	132,463
Supplies and Materials	14,300	9,458	23,758
Capital Outlay	7,157	588	7,745
Other	1,069	6,745	7,814
Total Expenditures	<u>\$216,665</u>	<u>\$111,815</u>	<u>\$328,480</u>
<u>EXCESS REVENUES OVER</u> <u>EXPENDITURES</u>	<u>(\$1,003)</u>	<u>\$320</u>	<u>(\$683)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$39,467</u>	<u>\$7,932</u>	<u>\$47,399</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$38,464</u>	<u>\$8,252</u>	<u>\$46,716</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
DEBT RETIREMENT FUND  
COMBINING BALANCE SHEET  
AS OF JUNE 30, 2005

	<u>1992</u> <u>DEBT</u>	<u>1997</u> <u>DEBT</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	<u>\$11,196</u>	<u>\$27,388</u>	<u>\$38,584</u>
<u>TOTAL ASSETS</u>	<u><u>\$11,196</u></u>	<u><u>\$27,388</u></u>	<u><u>\$38,584</u></u>
<u>FUND EQUITY</u>			
Reserved for Debt Retirement	<u>\$11,196</u>	<u>\$27,388</u>	<u>\$38,584</u>
<u>TOTAL FUND EQUITY</u>	<u><u>\$11,196</u></u>	<u><u>\$27,388</u></u>	<u><u>\$38,584</u></u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
DEBT RETIREMENT FUND  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>1992</u> <u>DEBT</u>	<u>1997</u> <u>DEBT</u>	<u>TOTALS</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Property Taxes	\$40,857	\$110,563	\$151,420
Earnings on Investments and Deposits	328	1,281	1,609
Total Revenues	<u>\$41,185</u>	<u>\$111,844</u>	<u>\$153,029</u>
<u>EXPENDITURES</u>			
Redemption of Bonds	35,000	85,000	120,000
Interest Expense	9,415	36,805	46,220
Agent and Other Fees	0	700	700
Total Expenditures	<u>\$44,415</u>	<u>\$122,505</u>	<u>\$166,920</u>
<u>EXCESS REVENUES OVER (UNDER)</u> <u>EXPENDITURES</u>	<u>(\$3,230)</u>	<u>(\$10,661)</u>	<u>(\$13,891)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$14,426</u>	<u>\$38,049</u>	<u>\$52,475</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$11,196</u>	<u>\$27,388</u>	<u>\$38,584</u>

INDIVIDUAL FUND SCHEDULES OF  
REVENUES, EXPENDITURES AND  
OTHER FINANCING USES



MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
FOR THE YEAR ENDED JUNE 30, 2005

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REVENUES FROM
Local Sources

Property Tax Levy	\$160,278
Earnings on Investments and Deposits	8,919
Community Education	9,030
Medicaid	12,806
Rentals	3,179
Other Local Revenues	25,393
Total Revenues from Local Sources	<u>\$219,605</u>

State Sources

Unrestricted	
State Aid - Foundation - Sec. 20	4,438,647
Restricted	
Special Education	110,798
Adult Education	98
Vocational Education - Sec. 61a.1	4,951
Durant	4,270
Michigan School Readiness	20,243
At Risk	51,897
Court Placed Children	(2,807)
Total Revenues from State Sources	<u>\$4,628,097</u>

Federal Sources

Title I	52,195
Title V	400
Technology Literacy	1,326
Improving Teacher Quality	28,328
Medicaid	786
Total Revenues from Federal Sources	<u>\$83,035</u>
Total Revenues	<u>\$4,930,737</u>

OTHER FINANCING SOURCES

County Special Education Tax	77,969
Transfers from Other Districts	124,541
Total Other Financing Sources	<u>\$202,510</u>

TOTAL REVENUES AND OTHER  
FINANCING SOURCES

\$5,133,247

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTIONBASIC PROGRAMSElementary

Salaries - Professional	\$874,122
Salaries - Non-Professional	73,331
Insurance	203,350
Fica, Retirement, Etc.	222,339
Other Benefits	2,400
Purchased Services	14,624
Supplies and Materials	22,721
Other	7,288
Total Elementary	<u>\$1,420,175</u>

High School

Salaries - Professional	742,077
Salaries - Non-Professional	62,980
Insurances	203,217
Fica, Retirement, Etc.	173,973
Other Benefits	3,500
Purchased Services	36,906
Supplies and Materials	45,060
Other	3,147
Total High School	<u>\$1,270,860</u>

Preschool

Salaries - Professional	8,100
Insurances	6,500
Fica, Retirement, Etc.	2,806
Purchased Services	2,272
Supplies and Materials	564
Total Preschool	<u>\$20,242</u>

Total Basic Programs	\$2,711,277
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ADDED NEEDSSpecial Education

Salaries - Professional	243,873
Salaries - Non-Professional	19,265
Insurances	38,565
Fica, Retirement, Etc.	55,749
Other Benefits	4,200
Purchased Services	225
Supplies and Materials	442
Other	249
Total Special Education	<u>\$362,568</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTION (Continued)ADDED NEEDS (Continued)Compensatory Education

Salaries - Professional	\$47,657
Salaries - Non-Professional	11,262
Insurances	13,062
Fica, Retirement, Etc.	13,736
Purchased Services	250
Supplies and Materials	241
Other	5,900
Total Compensatory Education	<u>\$92,108</u>

Vocational Education

Salaries - Professional	50,655
Salaries - Non-Professional	700
Insurances	8,778
Fica, Retirement, Etc.	11,324
Purchased Services	799
Supplies and Materials	628
Other	144
Total Vocational Education	<u>\$73,028</u>

Total Added Needs

\$527,704

ADULT EDUCATION

Salaries - Professional	2,535
Fica, Retirement, Etc.	539
Other Benefits	200
Supplies and Materials	34
Other	89,008
Total Adult Education	<u>\$92,316</u>

TOTAL INSTRUCTION

\$3,331,297

SUPPORT SERVICESStudent Services

Salaries - Professional	73,572
Insurances	8,606
Fica, Retirement, Etc.	16,227
Purchased Services	23,599
Supplies and Materials	740
Total Student Services	<u>\$122,744</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005

SUPPORT SERVICES (Continued)Instructional Staff

Salaries - Professional	\$61,386
Salaries - Non-Professional	16,855
Insurances	14,185
Fica, Retirement, Etc.	17,252
Purchased Services	73,875
Supplies and Materials	15,273
Capital Outlay	19,191
Other	5,330
Total Instructional Staff	<u>\$223,347</u>

General AdministrationBoard of Education

Salaries - Professional	4,995
Purchased Services	68,137
Supplies and Materials	2,390
Other	4,384
Total Board of Education	<u>\$79,906</u>

Executive Administration

Salaries - Professional	144,110
Salaries - Non-Professional	43,280
Insurances	74,879
Fica, Retirement, Etc.	41,413
Other Benefits	2,800
Purchased Services	8,391
Supplies and Materials	2,109
Capital Outlay	84
Other	2,125
Total Executive Administration	<u>\$319,191</u>

Total General Administration

\$399,097

School Administration

Salaries - Professional	151,747
Salaries - Non-Professional	82,446
Insurances	46,775
Fica, Retirement, Etc.	51,639
Other Benefits	512
Purchased Services	2,954
Supplies and Materials	199
Capital Outlay	1,001
Other	1,298
Total School Administration	<u>\$338,571</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005

SUPPORT SERVICES (Continued)Business Office

Other	\$28,329
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Operation and Maintenance of Plant

Salaries - Professional	55,351
Salaries - Non-Professional	88,472
Insurances	53,568
Fica, Retirement, Etc.	35,075
Purchased Services	130,672
Supplies and Materials	148,083
Capital Outlay	11,785
Other	1,423
Total Operation and Maintenance of Plant	\$524,429

Transportation

Salaries - Professional	24,233
Salaries - Non-Professional	63,714
Insurances	9,891
Fica, Retirement, Etc.	20,953
Purchased Services	13,694
Supplies and Materials	33,584
Other	538
Total Transportation	\$166,607

Other Support Services

Salaries - Non-Professional	36,899
Fica, Retirement, Etc.	12,970
Total Other Support Services	\$49,869

TOTAL SUPPORT SERVICES

	\$1,852,993
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TOTAL EXPENDITURES

	\$5,184,290
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OTHER FINANCING USES

Transfers to Other Funds	83,756
	83,756

TOTAL EXPENDITURES AND OTHER  
FINANCING USES

	\$5,268,046
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MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
TRUST AND AGENCY FUNDS  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2005

STUDENT GROUPS	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2004	RECEIPTS	DISBURSEMENTS	JUNE 30, 2005
Academic Challenge Team	\$38	\$1	\$0	\$39
Band Fund	47	1	141	(93)
Baseball Team	630	10	24	616
Boys Basketball Team	388	72	87	373
Bus Prof Amer	78	140	177	41
Cheerleaders	1,312	3,640	1,341	3,611
Class of 2000	6	0	6	0
Class of 2002	833	12	835	10
Class of 2003	1,167	15	1,169	13
Class of 2004	261	5	261	5
Class of 2005	1,624	131	1,680	75
Class of 2006	564	3,906	3,547	923
Class of 2007	605	3,578	2,372	1,811
Class of 2008	710	1,595	905	1,400
Class of 2009	192	2,123	1,417	898
Class of 2010	527	115	235	407
Class of 2012	0	4,024	2,418	1,606
Class of 2017	0	416	0	416
Elementary - Athletics	0	2,012	266	1,746
Elementary - Computer Fund	2,107	34	0	2,141
Elementary - Kindergarten Rooms	6	0	169	(163)
Elementary - Library	4,068	6,408	6,386	4,090
Elementary - Miscellaneous	1,744	994	689	2,049
Elementary - Student Council	862	3,224	1,823	2,263
Elementary - Young Authors	564	1,930	2,163	331
Environ Project	25	0	0	25
Farm Museum Fund	994	0	994	0
Football Team	1,260	180	184	1,256
Girls JH Basketball	0	723	723	0
Girls JV Basketball	0	441	441	0
Hosts Program	326	26	0	352
HS - Art	93	409	0	502
HS - Athletics	0	491	0	491
HS - Choir	3,436	56	0	3,492
HS - Library	263	1,124	983	404
HS - Miscellaneous	1,195	1,076	869	1,402
JH - Careers	1,238	105	92	1,251
JH - Quest	76	1	0	77
JH - Reading	280	5	0	285
JH - Student Council	804	13	0	817
Leos Club	0	424	89	335

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN

TRUST AND AGENCY FUNDS

SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 2005

STUDENT GROUPS	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2004	RECEIPTS	DISBURSEMENTS	JUNE 30, 2005
National Honor Society	\$185	\$77	\$71	\$191
Newspaper	471	9	0	480
Perkin - Grade 5	540	4	545	(1)
Preschool - Arts	1,659	31	0	1,690
SADD	470	8	0	478
Shop	769	1,888	1,242	1,415
Softball Team	342	6	0	348
STAND	371	6	0	377
Student Bookstore	67	1	0	68
Student Council	1,001	1,840	2,325	516
Track Team	342	5	24	323
Volleyball Team	450	1,043	954	539
Yearbook	680	7,878	4,963	3,595
<u>TOTAL</u>	<u>\$35,671</u>	<u>\$52,256</u>	<u>\$42,610</u>	<u>\$45,317</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
PRIVATE PURPOSE TRUSTS  
STATEMENT OF REVENUE AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2005

<u>MORRICE SCHOOL EDUCATION ASSOCIATION</u>	
<u>BALANCE - JULY 1, 2004</u>	\$52
<u>REVENUE</u>	
Interest	2
<u>BALANCE - JUNE 30, 2005</u>	<u>\$54</u>
<u>SUSAN WINEGAR SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2004</u>	\$1,340
<u>REVENUE</u>	
Interest	22
<u>EXPENDITURES</u>	
Scholarship Awards	100
<u>BALANCE - JUNE 30, 2005</u>	<u>\$1,262</u>
<u>SHAW - STANLEY SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2004</u>	\$6
<u>BALANCE - JUNE 30, 2005</u>	<u>\$6</u>
<u>KITTI MOREY MEMORIAL</u>	
<u>BALANCE - JULY 1, 2004</u>	\$757
<u>REVENUE</u>	
Interest	12
<u>EXPENDITURES</u>	
Scholarship Awards	300
<u>BALANCE - JUNE 30, 2005</u>	<u>\$469</u>
<u>D. FAHRENBACH SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2004</u>	\$802
<u>REVENUE</u>	
Interest	23
<u>EXPENDITURES</u>	
Scholarship Awards	200
<u>BALANCE - JUNE 30, 2005</u>	<u>\$625</u>



MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
PRIVATE PURPOSE TRUSTS  
STATEMENT OF REVENUE AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2005

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	<u>PAT KAY MEMORIAL SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2004</u>		(\$16)
<u>BALANCE - JUNE 30, 2005</u>		(\$16)
<hr/>		
	<u>J. KINNEY SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2004</u>		\$41
<u>REVENUE</u>		
Donations		500
Interest		2
Total Revenue		\$502
<u>EXPENDITURES</u>		
Scholarship Awards		500
<u>BALANCE - JUNE 30, 2005</u>		\$43
<hr/>		
	<u>MISC. ACADEMIC SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2004</u>		\$13
<u>REVENUE</u>		
Donations		400
<u>EXPENDITURES</u>		
Scholarship Awards		400
<u>BALANCE - JUNE 30, 2005</u>		\$13
<hr/>		
	<u>ALL SCHOLARSHIP FUNDS</u>	
<u>BALANCE - JUNE 30, 2005</u>		\$2,456
<hr/> <hr/>		

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
GENERAL OBLIGATION SERIAL BONDS  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS  
AS OF JUNE 30, 2005

1992 DEBT SERVICE FUND

DATE OF ISSUE - August 1, 1992

Original amount of issue - \$350,000.00

<u>PAYMENT DATE</u>	<u>INTEREST AMOUNT NOVEMBER 1</u>	<u>INTEREST AMOUNT MAY 1</u>	<u>RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>TOTAL REQUIREMENT</u>
2005-2006	\$3,614	\$3,614	6.25%	\$35,000	\$42,228
2006-2007	2,520	2,520	6.30%	40,000	45,040
2007-2008	1,260	1,260	6.30%	40,000	42,520
<u>TOTAL</u>	<u>\$7,394</u>	<u>\$7,394</u>		<u>\$115,000</u>	<u>\$129,788</u>

1997 DEBT SERVICE FUND

DATE OF ISSUE - November 1, 1997

Original amount of issue - \$1,125,000.00

<u>PAYMENT DATE</u>	<u>INTEREST AMOUNT NOVEMBER 1</u>	<u>INTEREST AMOUNT MAY 1</u>	<u>RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>TOTAL REQUIREMENT</u>
2005-2006	\$16,490	\$16,490	4.60%	\$85,000	\$117,980
2006-2007	14,535	14,535	4.65%	85,000	114,070
2007-2008	12,559	12,559	4.70%	85,000	110,118
2008-2009	10,561	10,561	4.80%	85,000	106,122
2009-2010	8,521	8,521	4.90%	85,000	102,042
2010-2011	6,439	6,439	5.00%	85,000	97,878
2011-2012	4,314	4,314	5.05%	85,000	93,628
2012-2013	2,168	2,168	5.10%	85,000	89,336
<u>TOTAL</u>	<u>\$75,587</u>	<u>\$75,587</u>		<u>\$680,000</u>	<u>\$831,174</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
GENERAL OBLIGATION SERIAL BONDS  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS  
AS OF JUNE 30, 2005

1998 DURANT RESOLUTION PACKAGE BONDS

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$56,485.60

	INTEREST REQUIREMENT	INTEREST RATE	PRINCIPAL REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
<u>PAYMENT DATE - MAY 15TH</u>				
2006	\$932	4.761353%	\$2,067	\$2,999
2007	833	4.761353%	2,165	2,998
2008	730	4.761353%	2,268	2,998
2009	622	4.761353%	2,376	2,998
2010	509	4.761353%	2,489	2,998
2011	391	4.761353%	2,608	2,999
2012	3,706	4.761353%	10,443	14,149
2013	136	4.761353%	2,862	2,998
<u>TOTAL</u>	<u>\$7,859</u>		<u>\$27,278</u>	<u>\$35,137</u>



*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

August 25, 2005

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of  
Morrice Area Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morrice Area Schools, as of and for the year ended June 30, 2005, which collectively comprise the Morrice Area Schools' basic financial statements and have issued our report thereon dated August 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Morrice Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morrice Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of Morrice Area Schools, in a separate letter dated August 25, 2005.

This report is intended solely for the information and use of the finance committee, management and Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

*Lewis & Knopf PC*

LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS



# Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

August 25, 2005

To the Board of Education of  
Morrice Area Schools

In planning and performing our audit of the financial statements of Morrice Area Schools for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Morrice Area Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

## CURRENT YEAR FINDINGS

### 1. Budgets and Budgetary Accounting

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2005, Morrice Area Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

### 2. Payroll – New Employee Setup

The District should establish procedures to ensure that the individual processing payroll does not have the ability to set up new employees in the computer system.

### 3. Auto Allowance vs. Reimbursement

IRS regulations require that allowances paid to employees without adequate documentation should be included in compensation on the employees W-2's.

### 4. Student Activity Accounting

At June 30, 2005, several of the Activity Accounts had deficit balances. Activity accounts are only permitted to expend the fund they have taken in. They are not allowed to borrow from other activities thus creating a deficit balance.

## FUTURE ISSUES

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Morrice Area Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.



Morrice Area Schools

Page 2

August 25, 2005

The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- \* Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)
- \* Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- \* Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Morrice Area Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Lewis & Knopf PC*  
LEWIS & KNOPE, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS